

Treasury Board's Master Leasing Program

History: The Master Lease Program began in 1987 in response to growing concern about the coordination of leasing activity of Commonwealth agencies and institutions. In 1997, the Master Lease Program was expanded to incorporate financing for energy efficiency projects in addition to equipment.

Purpose: The Master Lease Program ensures that all Commonwealth agencies obtain the best credit terms and financing arrangements available.

Code Reference: Section 2.2-2417

- **Eligibility for Financing**

- **Eligible Agencies:** All administrative units of State government, including agencies, departments, institutions, commissions, boards, councils, authorities, or other such bodies.
- **Personal Property:** Personal property is defined as new or reconditioned tangible personal property and includes personal property to be affixed to realty.
- **Energy Projects:** Energy efficiency projects may include personal property, the installation or modification of an installation in a building, professional management, and other special services which are primarily intended to reduce energy consumption and demand or allow the use of an alternative energy source.
- **\$10,000 Threshold:** Credit purchases of less than \$10,000 are exempt from the Master Lease Program.
- **“Soft” Costs:** Soft costs are defined as installation, shipping and handling, maintenance, etc. Soft costs are typically not included in equipment financings. Energy projects, by definition, include a soft cost component.
- **Software:** As a general rule, software alone cannot be financed through this program since it involves a license agreement and is not considered personal property of the user. Software purchased in conjunction with a hardware purchase may be acceptable to the finance company.
- **Essential Property:** The property to be financed must be used for governmental purposes and the agency must sign an Agency Representation Certificate attesting to that fact.

- **Lease Terms**

- **Available Terms:** 3, 4, 5, and 7 years.
 - a) **Monthly Payments** – Initial lease payment by the Agency will be due on the first day of the month which is one month after the month of the Vendor Payment Date or Reimbursement Payment Date to Agency.
 - b) **Semi-Annual Payments** - Initial lease payment by the Agency will be due on the first day of the month which is six months after the month of the Vendor Payment Date or Reimbursement Payment Date to Agency.
 - c) **Annual Payments** - Initial lease payment by the Agency will be due on the first day of the month which is twelve months after the month of the Vendor Payment Date or Reimbursement Payment Date to Agency.
- **Useful Life:** The term may not exceed the useful life of the equipment/project.

- **Interest Rates**

- **Indexed to Treasury Bill Rates:** The Master Lease rates are indexed to the Treasury Constant Maturities for the 3, 4, and 5-year term as published in the Federal Reserve Statistical Release H.15 (519).
- **Rates Change Weekly**
- **Indexed to the Municipal Market Data (MMD) General Obligation Yield:** The Master Lease rates are indexed to the yield on the triple-A Bonds maturing in 7 years as published by Thomson Financial.
- **Rates Change Daily**

- **Legal Structure of the Master Lease Program**

- **One Blanket Lease Agreement:** The Treasury Board, through an Invitation for Bids (IFB) process, procures a line of credit through one or more finance companies to provide financing for state agencies, institutions, boards and authorities.
 - a) **Contract** – A new lease agreement is entered into every 6 or 12 months, depending on the Treasury Board’s IFB process.
 - b) **Appendix** – Each acquisition/financing under the Master Lease contract constitutes an “appendix” to the Master Lease agreement.

- **Tax-Exempt Lease:**
 - a) **Governmental Borrower** – All state agencies, institutions, boards and authorities can borrow money through the program to finance equipment.
 - b) **Governmental Use** – The equipment financed must be for governmental use.
 - c) **Lease Payments Subject to Appropriation** – The lease payments must be appropriated by the General Assembly each year.
 - d) **Interest Rates Indexed to Treasury Bill Rates** – The Master Lease rates are indexed to the Treasury Constant Maturities rates.
 - e) **Interest Rates Indexed to the Municipal Market Data (MMD) General Obligation Yield** – The Master Lease rates are indexed to the Municipal Market Data General Obligation Yield.
- **Security Structure of the Master Lease Program:**
 - a) **Cross-Default Provision** – If one agency does not make lease payments on an appendix, all the appendices under the Master Lease contract will be in default.
 - b) **Cross-Non-Appropriation** – In the event of non-appropriation for any or all payments due under the Master Lease, the Master Lease contract terminates.
 - c) **Lessor's Security Interest in Equipment/Project** – If an agency defaults or if the Master Lease terminates, the lessor can repossess all of the equipment/projects financed under the Agreement.
 - d) **Creditworthiness of the Commonwealth** – The creditworthiness of the Commonwealth as a whole is considered and enhances the interest rates available through the program.
- **Accessing the Master Lease Program**
 - **Apply to the Department of the Treasury:** Agencies should submit financing requests to the Department of the Treasury.
 - **Review of Requests:** A request is reviewed for appropriateness and potential questions.
 - **Approved Requests:** Agencies will be notified of approval/disapproval generally within a week.

- **“Red Flags”:** Specific items Treasury looks for in agency requests include:

- a) Financing other than personal property;
- b) Requested lease term greater than useful life;
- c) Inclusion of software;
- d) Inclusion of soft costs; and
- e) Essentiality.

- **Prepayment Provisions**

- **Prepayment Penalties:** Leases can be prepaid after the first eighteen months of the lease without penalty. Prepayment penalties apply as follows:

Acceptance Date – 6 Months	3%
7-12 Months	2%
13-18 Months	1%
Over 18 Months	0%

- **Purpose:** Prepayment should be used where financially beneficial to the agency and the Commonwealth.
- **Prohibition:** Financings and subsequent prepayments should not be used in an abusive manner solely to enhance annual cashflow.

- **Vendor/Third Party Financings**

- **Treasury/Treasury Board Approval:** Vendor or Third Party financings require Treasury/Treasury Board approval as to financial terms and conditions.
- **\$10,000 Threshold:** Credit purchases of less than \$10,000 are exempt from review by Treasury/Treasury Board.
- **Procurement Process:** Agencies must adhere to the State’s procurement laws and regulation in purchasing equipment and making financing arrangements.
- **Treasury’s Review:** Treasury’s review is limited to the financial terms and conditions of the vendor leases.
- **Approval:** Vendor financings which offer more favorable terms and rates are normally approved.

- **Official Intent**

- **Definition:** “Official Intent” applies in cases where agency funds are spent on an acquisition or project and then reimbursed from proceeds of a tax-exempt financing.

- **Federal Regulation:** IRS regulations require that a Declaration of Official Intent (DOI) be executed not later than 60 days after payment of the original expenditure is made, if the expenditure is to be repaid from the proceeds of a tax-exempt financing.
 - a) **Form of Declaration** – The DOI must meet certain specific criteria. Treasury prepares the DOI based on information provided on the financing request form.
 - b) **Regulations Inflexible** – The federal regulations are specific and inflexible so if a reimbursement financing is contemplated, it must be indicated on the request form.
- **Purpose:** The regulations are intended to prevent abuses of reimbursements and are informally called the “pyramid” rules.